Inventories

Inventories are valued at lower of cost (first-in, first-out method) or market. The Company regularly reviews parts and finished goods inventories on hand and, when necessary, records a provision for excess or obsolete inventories based primarily on current selling price and sales prices in confirmed backlog orders. The Company also regularly reviews the period over which its inventories will be converted to sales. Any inventories expected to convert to sales beyond 12 months from the balance sheet date are classified as non-current.

The Company has classified $1,999,983 of its inventory as non-current based on the Company's forecast for sales during the next 12 months. Products that will not be sold in the next 12 months have been classified as non-current inventory.

Inventories include the following:

	June 30, 2007	December 31, 2006
Raw material	$ 4,795,679	$ 4,765,145
Finished goods	3,089,644	3,789,983
	7,885,323	8,555,128
Less provision for obsolescence	(1,654,834)	(933,554)
	$ 6,230,489	$ 7,621,574

Classification of Inventories:

Current	$ 4,230,506	$ 7,621,574
Non-Current	1,999,983	–
	$ 6,230,489	$ 7,621,574

The Company has shipped products with a cost basis of approximately $300,000 to one customer for evaluation purposes. These products are carried in inventory on the accompanying condensed balance sheet. The Company believes these products will convert to sales and the Company will be fully paid prior to the end of 2007. However, because this customer is not heavily capitalized, the customer could experience financial difficulties precluding them from paying for the Company's products. If the customer experiences such difficulties, the Company believes it will be able to recover some or all of these products. The Company currently has no knowledge of any specific financial issues with this customer and therefore no reserve has been provided.

Intangibles

Intangible assets consist primarily of patents and trademarks. The Company has adopted the guidelines for accounting for these assets as set forth in SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). Under the requirements as set out in SFAS 142, the Company amortizes the costs of acquired patents purchased over their remaining legal lives. Costs for current patent applications based on internally developed processes, primarily legal costs, are capitalized pending disposition of the individual patent application, and are subsequently either amortized based on initial patent life granted or evaluated for impairment periodically by the Company's management. At June 30, 2007, patent application costs of $259,652 were included in other assets, compared to $241,002 at December 31, 2006. For the six months ended June 30, 2007, amortization expense totaled $4,456, compared to $5,013 for the six months ended June 30, 2006.

At June 30, 2007, intangible assets totaled $365,526 consisting of $105,874 in patent costs and $259,652 in patent pending costs. Intangible Assets are included in non-current Other Assets. At December 31, 2006, intangible assets totaled $361,682 and included $125,400 in patent costs and $241,002 in patent pending costs.

Impairment of Long-Lived Assets

SFAS No.144, "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be disposed of" addressed financial accounting and reporting for the impairment or disposal of long-lived assets.

The Company reviews its long-lived assets, other than goodwill, for impairment wherever events or circumstances indicate the carrying value of such assets may not be recoverable through the estimated undiscounted future cash flows from the use of these assets. If the carrying value is more than the undiscounted future cash flow, the carrying value is then compared to the discounted future cash flow. Considerable judgment is required to estimate the appropriate discounting of future cash flows, if such comparisons can be reasonably ascertained. Factors that could indicate an impairment may exist include significant under performance relative to long-term projections, strategic changes in business strategy or significant negative economic trends in an industry. When and if such impairment exists, the related assets are written down to fair value. At June 30, 2007, management has determined that there were no indicators requiring review for impairment and therefore no adjustments have been made to the carrying value of long-lived assets. There can be no assurance, however, that market conditions will not change or demand for the Company's products or services will continue which could result in impairment of long-lived assets in the future.

There were no leasehold improvements at the Company's Waltham, MA location. Herndon, VA leasehold improvements with a net book value of $18,570 have been written off.

Accrued Liabilities

Accrued liabilities include the following:

	June 30,	December 31,

	2007	2006
Estimated contract based costs	$ 225,000	$ 500,000
Accrued interest payable	216,351	171,221
Accrued payroll and benefits	398,505	466,751
Accrued warranty costs	226,035	233,723
Accrued rent Waltham	118,837	—
Accrued franchise and other taxes	68,020	—
Other	14,839	45,021
	$ 1,267,587	$ 1,416,716

Net Loss Per Share

Basic loss per share is computed by dividing loss available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted loss per share reflects, in periods in which they have a dilutive effect, the effect of common shares issuable upon the exercise of stock options and warrants or conversion of any convertible equities securities. Diluted loss per share amounts are the same as basic amounts because the impact of the stock equivalents was anti-dilutive. The following securities were excluded from the computation of diluted loss per common share for the period because their effect is anti-dilutive. Although the grant price of the 2007 options at the May 23, 2007 grant date is below the weighted average stock price for the three months ended June 30, 2007, none of these options are vested as of the June 30 date, and thus none of the 669,500 options issued can be converted as of the June 30, 2007 balance sheet date.

	Number of Shares
Notes convertible into common stock	67,500
Options to purchase common stock	2,036,422
Warrants to purchase common stock	7,219,148
Shares underlying Series B convertible preferred stock	2,475,412
Shares underlying Series C convertible preferred stock	1,639,344

Share-Based Compensation

Effective January 1, 2006, the Company adopted SFAS 123R which establishes standards for transactions in which an entity exchanges its equity instruments for goods or services. SFAS 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions, including issuances of stock options to employees. As a result of the adoption of SFAS 123R utilizing the Modified Prospective method, the Company recorded charges of $828,831 in the six months ended June 30, 2007, representing the effect on income from continuing operations, income before income taxes, and net income. The Company recorded charges of $1,098,547 in the six months ended June 30, 2006, representing the effect on income from continuing operations, income before income taxes, and net income.

A total of 559,500 stock options were granted by the Company to employees and directors during the six months ended June 30, 2007. All options in the six months ended June 30, 2007 were granted with an exercise price of $2.84. Compensation expense recognized during the six months ended June 30, 2007 amounted to $828,831. These amounts were charged to operations and added to paid-in capital in accordance with SFAS 123R. The Company granted 852,250 options to employees and directors during the six months ended June 30, 2006 with exercise prices ranging from $8.00 per share to $12.03 per share. Compensation expense recognized during the six months ended June 30, 2006 amounted to $1,098,547. As of June 30, 2007, a total of 1,373,833 options were available for grant under the combined 2004 and 2006 plans.

A summary of employee options activity under the Company's plans as of June 30, 2007 and changes during the six-month period then ended is presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Terms (Years)	Aggregate Intrinsic Value
Balance, January 1, 2007	1,444,355	$8.71		
Granted during the period	559,500	—		
Exercised during the period	—	—		
Expired during the period	(471,305)	—		
Outstanding, June 30, 2007	1,532,550	$6.68	6.64	$10,239,715
Exercisable, June 30, 2007	468,637	$6.14	7.96	$1,646,085

The closing market value of the Company's common stock as of June 30, 2007 was $2.69 per share.

The fair value of each option award during the six months ended June 30, 2007 is estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the following table:

	June 30, 2007
Expected volatility	101%
Weighted-average volatility	98%
Expected dividends	0.0%
Expected term (in years)	6 years
Risk-free rate	4.76%

Options to purchase 1,532,550 shares of the Company's common stock were outstanding during the six month period ended June 30, 2007, but were not included in the computation of diluted EPS, as the effect would be anti-dilutive.

Recent Accounting Pronouncements

FASB Interpretation No. 48 "*Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109*"

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, which prescribed a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on the de-recognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006 so the Company adopted FIN 48 as of January 1, 2007. The cumulative impact of applying the provisions of FIN 48 is an adjustment to the opening balance of retained earnings. See Note 5 in the accompanying condensed consolidated financial statements for more information.

The Company's practice is to classify any interest and penalties related to income tax matters in income tax expense. As of June 30, 2007, the Company had no accrued penalty payments in unrecognized tax benefits.

SFAS No. 157 "Fair Value Measurements"

SFAS 157 was issued in September 2006 and will be effective for the first quarter of the Company's 2008 fiscal year. This standard clarifies the definition of fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. The Company is in the process of reviewing the impact, if any, that SFAS 157 will have on its financial statements.

SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115"

SFAS 159 was issued in February 2007 and permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of this Statement is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities using different measurement techniques. The fair value measurement provisions are elective and can be applied to individual financial instruments. SFAS 159 requires additional disclosures related to the fair value measurements included in the entity's financial statements. This Statement is effective for the Company as of the beginning of the 2008 year. The Company has not yet determined if it will elect to adopt the fair value measurement provisions of this Statement and what impacts such adoption might have on the Company's financial statements.

3. Going Concern Consideration

The Company's condensed consolidated financial statements have been presented on the basis that they are a going concern which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. During the years ended December 31, 2006 and 2005 and through June 30, 2007, the Company has been unable to generate cash flows from operations and has been dependent on debt and equity raised from qualified individual investors.

At June 30, 2007, the Company had cash and cash equivalents of $53,084. The Company's net working capital (current assets less current liabilities) as of June 30, 2007 was $604,313. The Company's accounts payable liabilities were $2,856,150 at June 30, 2007. Management believes the Company will continue to incur net losses from operating activities through at least December 31, 2007.

These factors raise substantial doubt about the Company's ability to continue as a going concern. The financial statements contained herein do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate sufficient cash flows to meet its obligations on a timely basis, to obtain additional financing as may be required, and ultimately to attain profitable operations. However, there is no assurance that profitable operations or sufficient cash flows will occur in the future. The Company's independent auditors issued a going concern qualification in their report on the consolidated financial statements included with the Company's December 31, 2006 annual report on Form 10-KSB.

To date, the Company has supported its operations by: 1) selling its products and related services, 2) raising additional operating cash through the private sale of its redeemable preferred and convertible preferred stock, 3) selling convertible debt in a private sale, 4) issuing common stock shares upon conversion of common stock warrants issued at the time of the Company's IPO and 5) issuing notes to existing investors.

These steps have provided the Company with the cash flows to continue its business through the date of this report, but have not resulted in significant improvement in the Company's current financial position. The following efforts have been undertaken or are in process as part of the Company's efforts to secure suitable financings, improve working capital and increase cash flows with the objective to improve its long-term financial viability:

- On January 5, 2007, the Company reduced its total work force levels from 53 to 26 persons.

- With the agreement of the Company's landlord, and with no further lease payment obligations, the Company closed its Lewisville, Texas location in early January 2007 and combined these operations into the Company's Durham, NC facility. In July 2007, the Company relocated its corporate offices, including its administrative, finance and accounting functions to the Durham facility.

- Vigorous collection of accounts receivable balances, and in certain cases, the Company requiring substantial money in advance of shipment of links.

- In January 2007, to conserve cash, the Company requested a waiver from the Series B and Series C preferred shareholders to pay their quarterly dividend in shares of the Company's common stock in lieu of a cash dividend. Additionally, in consideration for agreeing to the waiver, the Company offered to the holders of the Series B and Series C stock a number of common stock purchase warrants equal to 50% of the number of shares of common stock as payment for the January 2007 dividends. All of the Series B and Series C preferred shareholders agreed to the waiver and the Company issued 118,259 shares of its common stock and 59,134 common stock purchase warrants. The shares of common stock were valued at

$4.2449 (90% of the average of the Volume Weighted Average Price for the 20 consecutive trading days ending December 29, 2006). The Company accounted for this transaction by ascribing a portion of the consideration to the warrants which were treated as equity under the provisions of EITF 00-19.

- In April 2007, again to conserve cash, the Company requested a waiver from the Series B and Series C shareholders to receive their quarterly dividend in shares of the Company's common stock in lieu of a quarterly cash dividend. Additionally, in consideration for agreeing to the waiver, the Company offered to the holders of the Series B and Series C stock a number of common stock purchase warrants equal to 50% of the number of shares of common stock issued as payment for the April dividend. All of the Series B and Series C shareholders agreed to the waiver and the Company issued 173,660 shares of its common stock and 86,829 common stock purchase warrants. The common stock shares were valued at $2.8907 (90% of the VWAP for the 20 consecutive trading days ending March 30, 2007). The Company accounted for this transaction by ascribing a portion of the consideration to the warrants which were treated as equity under the provisions of EITF 00-19.

- In July 2007, the Company again requested a waiver from the Series B and Series C shareholders to pay their quarterly dividend in shares of the Company's common stock in lieu of a cash payment. Additionally, in consideration for agreeing to the waiver, the Company offered to the holders of the Series B and Series C stock a number of common stock purchase warrants equal to 50% of the number of shares of common stock as payment for the July 2007 dividends. Should all of the Series B and Series C shareholders accept the offered stock for the July dividend, the Company would issue 198,474 shares of its common stock and 99,237 common stock purchase warrants equal to 50% of this amount.

- On April 17, 2007, the Company received proceeds of $500,000 under a note payable from an existing investor. On May 22, 2007, the Company received $493,210 additional proceeds from the same investor. These two loans were rolled into a $1 million short term financing, due on May 23, 2008. In August 2007, the Company announced a financing agreement with the same investor under which the investor would invest an additional $500,000 and the $1 million short-term facility will be converted into a new class of convertible preferred stock. Additionally, the Company will issue common stock purchase warrants to the investor.

- The Company has reduced cash operating expenses to levels that are in line with current revenues. The Company may seek reductions in certain operations expenses through the issuance of additional common shares of its stock in lieu of cash payments to key vendors. The Company has no assurance that it will enter into any such arrangements with any of its vendors.

These alternatives could result in substantial dilution of existing shareholders. There can be no assurances that the Company's current financial position can be improved, that the Company can raise additional working capital or that it can achieve positive cash flows from operations. The Company's short and long-term viability as a going concern is dependent upon the following:

- The Company's ability to locate sources of debt or equity funding to meet current commitments and near-term future requirements.

- The Company's ability to achieve profitability and ultimately generate sufficient cash flow from operations to sustain its continuing operations.

4. Debt and other credit arrangements:

The Company's total borrowings were comprised of the following:

	As of	
	June 30, 2007	December 31, 2006
Note payable, related party	$ 65,000	$ -
Note payable, other	$ 1,000,000	$ -
Less: unamortized discount on note to investor	(348,134)	-
	$ 651,866	$ -
Convertible payable notes	$ 540,000	$ 1,802,800
Less: unamortized discount	(187,966)	(433,170)
Less: unamortized beneficial conversion feature	(133,398)	(318,594)
	$ 218,636	$ 1,051,036
Capital lease obligations	$ 55,895	$ 70,284
Less: current portion of capital lease obligations	(28,899)	(29,125)
Capital lease obligations, non-current	$ 26,996	$ 41,159

Convertible notes payable

On January 28, 2005 and February 1, 2005, the Company issued 8% senior convertible notes and common stock warrants with an aggregate principal amount of $2,500,000, due January 28, 2008 ("Notes"), in an asset-backed financing. Additionally, warrants to purchase common stock were issued in connection with the financing.

The principal amount of the Notes is convertible at the election of the holders into shares of the Company's common stock at $8.00 per share. One-half of the interest on the Notes is payable in cash, semi-annually beginning July 31, 2005, and the balance is payable, on the earlier of the Note's maturity or conversion, in cash or, at each holder's option, in shares of the Company's common stock valued at the lesser of (i) $10.00 per share and (ii) the volume weighted average per-share price of the common stock for the ten trading days ended five business days prior to the applicable interest payment date. The Notes are collateralized by substantially all of the Company's assets as well as by the personal pledge of shares of common stock of the Company by each of the Company's Chief Executive Officer and Chief Technical Officer.

The warrants issued in conjunction with the Notes are exercisable to purchase an aggregate of 446,429 shares of common stock at an exercise price of $7.00 per share through January 28, 2011. The Company estimated the fair value of the warrants using the Black-Scholes model. The resulting fair value of $1,194,761 was recorded as a debt discount, which is being amortized over the term of the debt. The debt discount was recorded as a reduction to convertible Notes payable and the amortization of the debt discount is being recorded as a component of interest expense. During the six months ended June 30, 2007 and 2006, the Company recorded amortization of $245,204 and $197,490, respectively.

In connection with the issuance of the Notes, the Company paid issuance costs of $330,519. In addition, the placement agent received warrants (identical to the warrants issued to the investors in the financing) to purchase 44,642 shares of common stock and options to purchase 31,250 shares of common stock for $8.00 per share. The Company estimated the fair value of the placement agent warrants and options using the Black-Scholes model to be $384,835. The resulting aggregate debt issuance costs of $715,354 are being amortized as a component of interest expense over the term of the debt. During the six months ended June 30, 2007 and 2006, the Company recorded amortization of $559,820 and $520,445, respectively.

The proceeds from the issuance of the Notes and warrants were allocated between the Notes and the warrants based on the relative fair values of the components. The portion of the proceeds allocated to the warrants was classified as additional paid-in capital. The proceeds allocated to the Notes were compared to the fair value of the common stock that would be received on the conversion and the Company determined that a beneficial conversion feature existed. The Company has estimated the fair value of such beneficial conversion feature to be approximately $882,261 and recorded such amount as a debt discount. Such discount is required to be amortized to interest expense over the period from the date of issuance of the Notes until the stated redemption date, January 28, 2008. During the three months ended June 30, 2007, the Company recorded interest expense of $10,920 related to the amortization of the beneficial conversion feature. The unamortized balance of $133,398 and $318,594 has been recorded as a reduction to convertible notes payable at June 30, 2007 and December 31, 2006, respectively.

During the six months ended June 30, 2007, note holders exercised conversion rights with respect to $1,262,800 in face value of notes to shares of common stock. During the year ended December 31, 2006, note holders exercised conversion rights with respect to $540,867 in face value of Notes to shares of common stock. Shares of common stock were issued and the related Notes were retired or reduced in face value.

The carrying values as of June 30, 2007 and December 31, 2006 of $218,636 and $1,051,036, respectively, are comprised of the aggregate principal amount outstanding, net of unamortized discount and the net unamortized beneficial conversion feature. The net decrease in the carrying value at June 30, 2007 is due to conversion of the $1,262,800 principal amount of the notes to common stock shares during the first quarter, and is offset by the